



Internal Audit Report

Small Federal Grants Administration

Limited Operational Audit

January 1, 2011 – December 31, 2012

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Transmittal Letter

Audit Committee
Port of Seattle
Seattle, Washington

We have completed an audit of Small Federal Grants Administration.

We examined information from January 1, 2011 - December 31, 2012.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We extend our appreciation to the grant project administrators throughout the Port and the management and staff of Accounting and Financial Reporting for their assistance and cooperation during the audit.



Joyce Kirangi, CPA, CGMA
Director, Internal Audit

Audit Team:	Responsible Management Team:
Ruth Riddle, Sr. Internal Auditor	Rudy Caluza, Director, Accounting & Financial Reporting
Jack Hutchinson, Audit Manager	Dan Thomas, Chief Financial & Admin. Officer

Executive Summary

Audit Scope and Objectives The purpose of the audit was to determine whether:

1. There are adequate policies and procedures to guide the administration of smaller grants.
2. The administrators of the smaller grants are provided adequate training in federal grant requirements.
3. Costs for smaller grant-funded projects are properly estimated prior to grant application, to ensure that requested federal funding is maximized and Port funding is minimized.
4. Controls over receipt of federal funds are adequate.

The scope of our audit covered the period January 1, 2011 - December 31, 2012.

Background Federal grants are a significant source of revenue to the Port, with the majority of funding coming from the United States Department of Transportation's Federal Aviation Administration as part of the Airport Improvement Program (AIP).

For 2010, 2011, and 2012, the AIP funding was \$30,178,849, \$19,461,655, and \$21,064,783, respectively. The AIP grant (and other federal grants) is audited annually by a CPA firm.

Total federal expenditures for this same period were \$37,451,922, \$22,713,762, and \$27,751,934, respectively.

Unaudited grants for the same period totaled \$3,598,350, \$2,217,319, and \$2,229,733, respectively, and included grants under \$100,000, which totaled \$492,225, \$173,798, \$226,426, respectively.

Our audit focused on the administration of smaller federal grants (below \$100,000). We also selected smaller departments that charge less than significant costs to the AIP grant, but which may not be visited by the CPA firm, in order to evaluate the effectiveness of grant administration.

Audit Result Summary The policies and procedures that guide the administration of smaller grants are adequate. Training provided to the administrators of smaller grants is adequate. Costs of smaller grant-funded projects are properly estimated prior to grant application. Controls over receipt of federal funds are adequate.

Background

Federal grants are a significant source of revenue to the Port. Federal dollars have been flowing into the Port since its inception, primarily for the benefit of the airport. The largest grant is from the United States Department of Transportation, Federal Aviation Administration, Airport Improvement Program (AIP), CFDA 20.106¹.

The Port of Seattle has an annual single audit² conducted by a CPA firm. The Port is *considered* a low-risk auditee³ (i.e., only 25% of total grants are required to be audited annually as major⁴ programs). However, the CPA firm audits over 90% of the federal expenditures as major programs, due to the size of the AIP grant. The mandated coverage threshold of 25% cannot be achieved without its inclusion.

Our audit focused on the administration of smaller federal grants (below \$100,000). We also selected smaller departments that charge less than significant costs to the AIP grant, but which may not be visited by the CPA firm, in order to evaluate the effectiveness of grant administration.

The following table provides an overview of federal grant expenditures:

Port of Seattle Federal Grant Expenditures

*Fiscal Years 2011 & 2012**

Description	2011	2012
Total Federal Expenditures	\$22,713,762	\$27,751,934
Total Audited Federal Expenditures	20,496,443	25,522,201
Total Unaudited Grants (including grants under \$100,000)	2,217,319	2,229,733
Total Grants Under \$100,000 (included in unaudited)	173,798	226,426

Data Source: Schedule of Expenditures of Federal Awards (SEFA).

Data Note* For the Port's fiscal year: January 1 – December 31. Not concurrent with the federal fiscal year: October 1 – September 30.

Highlights and Accomplishments

- The Port has had no federal audit findings since 2008,⁵ allowing it to be considered a low-risk auditee,³ requiring audit of only³ 25% of its annual federal expenditures.
- The process for reviewing grant reimbursements has become more efficient and the claims submitted to the federal agencies have been automated, with approximately 98% of grant funds received by wire.
- The Port's Central Procurement Office published CPO-9 in December 2012, which formalized guidance for grant-funded procurements.

¹ The Catalog of Federal Domestic Assistance (CFDA) assigns a number to each grant.

² A single audit is the audit of federal grants as part of the Port's financial audit. A CPA firm audits the Port's financial statements and the federal grant expenditures.

³ The federal government defines a low-risk auditee as one that has (a) annual audits, (b) unqualified opinions on the financial statements and SEFA, (3) no deficiencies in internal controls, and (4) no audit findings in the preceding two years.

⁴ Major programs are selected from Type A and Type B programs (Type A programs are the larger of \$300,000 or 3% of total federal expenditures; Type B programs are the larger of \$100,000 or 0.3% of total federal expenditures) sufficient to ensure that either 25% or 50% of federal expenditures are audited as majors, in accordance with OMB A-133.

⁵ The finding in 2008 did not involve a questioned cost or noncompliance. Rather, it recommended improvements to the procurement process to ensure that contractors and vendors had not been suspended or debarred from participation in federally funded projects.

Audit Scope and Methodology

The scope of the audit covered the period from January 1, 2011 - December 31, 2012. We focused on smaller federal grants below \$100,000. We also selected smaller departments that charge less than significant costs to the AIP grant, but which may not be visited by the CPA firm, in order to evaluate the effectiveness of grant administration. We utilized a risk-based audit approach from planning to testing. In order to obtain a complete understanding of federal grants administration, we interviewed management and staff, reviewed policies and procedures, conducted a preliminary survey of grant project administrators, and analyzed and compared federal grant activity for 2010, 2011, and 2012. We assessed significant risks and identified controls to mitigate those risks. We evaluated whether the controls were functioning as intended.

We applied additional detailed audit procedures to areas with the highest likelihood of significant negative impact as follows:

Objective 1

There are adequate policies and procedures to guide the administration of smaller grants.

- We conducted a follow-up survey of grant project administrators, to determine whether they considered the current policies and procedures to be sufficiently visible and to provide adequate guidance on grants administration.

Objective 2

Administrators of smaller grants are provided adequate training in federal grant requirements.

- We conducted a follow-up survey of all grant project administrators, to determine whether they deemed the current training methods adequate.
- We tested two smaller grants (less than \$100,000) to determine whether:
 - Incurred expenditures were allowable.
 - Required reports were submitted timely and accurately.
 - Grant expenditures were incurred during the period of availability. (In other words, expenditures charged to federal programs were not incurred prior to grant approval.)
 - Reimbursements of grant expenditures were properly recorded.
 - Grant expenditures properly presented on the SEFA

Selected 2012 Schedule of Expenditures of Federal Awards (SEFA) for Audit Testing

CFDA Number	Federal Agency, Program, and (local) Grant Administrator	Total Expenditures
15.616	US Fish and Wildlife Service - Clean Vessel Act Grant Program: ● Passed through Washington State Parks and Recreation Commission	\$ 16,254
81.086	US Department of Energy - Conservation Research and Development (Clean Cities Video): ● Passed through Puget Sound Clean Air Agency	\$ 38,495

Data Source: Schedules of Expenditures of Federal Awards

- We also selected eight smaller departments that charge costs to the AIP grant, CFDA 20.106. Although this grant is audited annually as a major program, we wanted to determine the effectiveness of grant administration within the smaller departments which may not be visited by the CPA firm.

Objective 3

Costs for smaller grant-funded projects are properly estimated prior to grant application, to ensure that requested federal funding is maximized and Port funding is minimized.

- We conducted a follow-up survey of grant administrators to determine their process for developing projects and applying for grant funding.

Objective 4

Controls over receipt of federal funds are adequate.

- We determined which grants were reimbursed by wire versus check.
- We inquired of the Port's bank to determine whether all bank accounts containing the name "Port of Seattle" were authorized.

Conclusion

The policies and procedures that guide the administration of smaller grants are adequate. Training provided to the administrators of smaller grants is adequate. Costs of smaller grant-funded projects are properly estimated prior to grant application. Controls over receipt of federal funds are adequate.